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FISCAL IMPACT STATEMENT

LS 6693 **NOTE PREPARED:** Dec 31, 2004
BILL NUMBER: HB 1367 **BILL AMENDED:**

SUBJECT: Property Tax Assessment of Farm Land.

FIRST AUTHOR: Rep. Hoffman **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill sets an agricultural land base rate of $880 per acre for property tax assessments in 2005 and 2006. The bill establishes the method by which the Department of Local Government Finance (DLGF) sets the agricultural land base rate for assessments in later years.

Effective Date: Upon passage.

Explanation of State Expenditures: The state currently pays a Property Tax Replacement Credit (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. In addition, the state pays a 20% Homestead Credit against the net (after PTRC) levy on operating fund levies attributable to owner-occupied homes.

If, as explained in the *Explanation of Local Revenues*, the DLGF administratively sets the farmland base rate at $880 per acre under rule, then this bill would cause no change in PTRC or Homestead Credit payments in CY 2006 or CY 2007.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: The base rate for farmland is currently $1,050 per acre. This rate is set by the DLGF and is based on the capitalization of net cash rents and net operating income for farmland. This bill would change the base rate to $880 per acre for taxes paid in 2006 and 2007.

In addition, the bill would require the farmland base rate to be adjusted for taxes paid in 2008 so that the farmland base rate would equal $495 (base rate in 2001 Pay 2002) multiplied by the percentage increase in (1) the gross assessments of non-farmland real property from 2001 to 2007, less (2) standard homestead deductions in both years, less (3) new construction AV, less (4) the assessed value in both years of any property for which a change in use caused either a change in valuation method or deductions eligibility.

For each year beginning with taxes paid in 2009, the base rate would equal the previous year's base rate multiplied by the ratio of (1) current AV for non-farmland real property to (2) previous AV for non-farmland property with the same exclusions as the 2008 calculation.

$880 per acre

IC 6-1.1-4-4.5 currently requires annual adjustments to real property values to begin with the 2005 pay 2006 tax year. The DLGF must adopt rules to govern these adjustments. The DLGF will also make adjustments to the farmland base value. While the base value that will be used under the annual adjustment statute has not been officially set, it is understood that it will fall within the range of $880 to $950 per acre for taxes paid in 2006.

If the rate is administratively set under current law at $880 per acre, then this provision would have no impact for taxes paid in 2006 or 2007. If, however, the rate is administratively set under current law at an amount above $880, then the resulting tax shifts from farmland to other properties would be slightly greater under this bill than under the administrative change. A recent fiscal analysis on the annual adjustments for all real property, using $880 per acre for farmland, showed an average 29.7% reduction in the net tax paid on farmland in 27 counties that were examined. Updating those findings to now include 49 available counties produces a similar reduction, 28.9%.

Adjusted Base Rate

The provision in the bill that would require the base rate for farmland to be adjusted annually beginning with taxes paid in 2008 would cause some additional tax shifting.

The total 2001 pay 2002 AV of non-farmland real property was calculated for the 49 counties with available data. The 2007 pay 2008 AV was estimated for those counties according to the proposed rule on annual AV adjustments. A comparison showed that the 2007 non-farmland real property AV was estimated to be 212% of the 2001 AV, a 112% increase. The 2007 pay 2008 farmland base rate would be calculated as $495 X 212%, or $1,049 per acre.

This calculation would be made on a statewide basis. The 49 available counties may or may not be consistent with the full statewide figures. The actual statewide results could vary, either higher or lower, from these estimates.

The base rates for the 2007 assessment date and beyond under the proposed rule are unknown. If the base rate produced by this proposal is higher than the rule rate, then this bill would create a tax shift from other property to farmland. Conversely, if the base rate produced by this proposal is lower than the rule rate, then this bill would create a tax shift from farmland to other property.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Township and county assessors.

Information Sources: Proposed DLGF rule #02-0297 and LSA fiscal note #02-0297; County assessor parcel level assessment data.

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